Consumers Union

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Mr. Gene Varanini
General Counsel
California Consumer Power and Conservation Financing Authority
901 P Street, Suite 142A
Sacramento, CA 95814

Re: Consumers Union's white paper "Protecting California's Residential and Small Business Electricity Consumers"

Dear Mr. Varanini,

Enclosed is a copy of Consumers Union's white paper "Protecting California's Residential and Small Business Electricity Consumers." This paper is intended to give policymakers who will face tough decisions on electricity in 2002 a roadmap to the long-term market structure that makes sense for small and large electricity users. In short, we conclude that small users need retail protection with limited choices, while large users should be able to return, someday, to direct access among competitive providers.

We are at a critical juncture. In March, the retail rate freeze ends, the Federal Energy Regulatory Commission (FERC) rate cap order expires in September, and the Department of Water Resources (DWR) authority to purchase the "net short" for the private utilities concludes in December. The California Public Utilities Commission (CPUC) has suspended direct access for all ratepayers, and the major utilities are still insolvent. There is much work to be done.

No ideal approach for small users has emerged in the states that have restructured their electricity markets by dropping traditional cost-of-service regulation. Suppliers to small users have been unstable. Prices have been volatile. The lessons we have learned do present a structure that would protect small users, while giving us the benefits of wholesale competition and preserving some consumer choices. The key elements of such a structure are:

1. To provide **price stability**, the distribution utilities should procure a stable, "standard offer" portfolio of energy for residential and small business customers in bundled service. The utilities would continue with the obligation to serve.

2. To provide **reliability**, the utility should procure and provide the ISO with the reserve margin needed to prevent emergencies and blackouts to small users.

1535 Mission Street • San Francisco, CA 94103 • (415) 431-6747 • Fax (415) 431-0906

3. To provide the benefits of **wholesale competition**, the utility should obtain the standard offer energy through contracts and markets using competitive bidding processes approved by the CPUC.

4. To provide innovative **consumer choices**, the CPUC should design a process for the utilities to obtain a few energy portfolio choices which consumers have found attractive, especially a choice of "extra green" electricity generation.

5. To ensure **clear and credible information** about the choices, the providers of the added choices should submit their information to the CPUC for approval.

6. To provide **stability** so the utilities and other energy providers can make long-term contracts and financial commitments, the consumers should only be permitted to switch energy providers at annual or longer intervals.

7. To provider **large users** with the **choices** they want, large users should have direct access to competitive energy providers once the Legislature or CPUC determines how they should pay their shares of the costs of DWR power and contracts.

This market approach, which separates small from large users, clarifies the responsibility for costs and reliability, while protecting residential and small business consumers from confusing competitive retail offers.

I hope you find this blueprint helpful. For further discussion, please contact Bill Ahern at 415-431-6747, aherbi@consumer.org.

Very truly yours,

Elizabeth M. Imholz
Director
West Coast Regional Office
Consumers Union of U.S, Inc.

Protecting California's Residential and Small Business Electricity Consumers

By
William Ahern, Consumers Union of U.S., Inc.
with Janee Briesemeister, Consumers Union of U.S., Inc.

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PROTECTING CALIFORNIA'S RESIDENTIAL AND SMALL BUSINESS ELECTRICITY CONSUMERS

SUMMARY

The recent implementation of electricity market restructuring in California and 13 other states has failed to give residential and small business customers needed reliability, price stability, protection, and trustworthy information. No clear model approach for small electricity users has yet emerged. However, it is clear that any approach should protect small users from direct hourly exposure to price volatility. Proposals made by some to "fix" the markets, such as moving to more complete wholesale and retail competition, will leave most small consumers worse off. Consumers are unlikely to benefit from a complicated choice among competitive electric energy service providers. The experience so far has shown that electric energy providers are not eager to market and sell to small users, and that such providers are unstable and can leave the market when conditions turn unfavorable.

Any new market design for California will be another experiment. The following design principles are intended to provide residential and small business users in California with basic protection, fairness, and stability of prices, with innovative, but limited, consumer choices and with the economic benefits of wholesale supply competition.

1. The distribution **utilities would continue to aggregate geographical areas of small consumers** and have the **obligation to serve** those customers with a standard energy portfolio, made up of their own generation and purchased power.

2. Under California Public Utilities Commission (CPUC) regulation, the utilities would offer consumers a **standard offer rate** constructed from a mixed portfolio of short- and long-term power supplies that provides stability, reliability and reasonable rates. The rates would be based on the cost of the supply acquired through integrated least cost planning principles, rather than on volatile, short-term, market-based purchases. State law or CPUC regulation would determine the mix of renewable resources to be included in this standard portfolio. The utilities can only assume this procurement role once they are creditworthy again.

3. The utilities would use their own power generation sources and contracts and would obtain added energy through a competitive bidding process, overseen by the CPUC. There would be **wholesale supply competition** among potential energy providers to the utilities.

4. The utilities, using CPUC-adopted ground rules, would also construct a small number of other **innovative choices** for consumers who want energy supplies different from the standard portfolio. Such choices should include a portfolio with extra "green" and renewable resources. The utilities would use a bidding process approved by the CPUC to select the non-utility providers of these other electric energy choices. Small consumers would have only these choices. There would not be direct retail competition and consumers would not have direct access to any energy provider they choose.

5. The utilities and the selected providers would provide **information** to consumers about the choices. The CPUC would oversee the accuracy and completeness of the information.

6. Residential customers would pay **averaged rates**, with continuation of "baseline" rates to ensure affordability and encourage conservation. Customers would not be forced to take time-of-use rates or real time pricing meters.

7. Small customers would only be **allowed to switch** among portfolio choices at defined open enrollment periods. Such limits provide stability and help finance long-term supplies.

8. The market design for **large users** would be different. They would again have **direct access** to a full range of competitive providers at the retail level, when the Legislature and CPUC determine that is in the public interest. They would continue to be responsible for their share of the high-cost California Department of Water Resources (DWR) power contracts. Large users could choose the standard portfolio constructed by the utilities for small users, but there would be constraints and charges on any subsequent switching. This is to prevent large users from gaming prices and harming small users by creating new "stranded costs."

9. The distribution utilities, the load serving entities for small consumers, would be required to also **provide the reserves** needed to avoid emergency shortages and blackouts.

The CPUC could put most of these market elements into effect. But because this design for small customers is a major change from the 1996 electric market restructuring legislation, and because the design affects about 80 percent of small electricity users in the State, the Legislature should consider these changes and place them into law.

BACKGROUND

In 1996 the California Legislature adopted AB 1890 which radically changed the way privately-owned electric utilities in California treat small electricity consumers. The major privately-owned utilities, Pacific Gas and Electric (PG&E), Southern California Edison (SCE) and San Diego Gas and Electric (SDG&E), serve about 80% of all customers statewide. The other 20% are served by municipally-owned utilities such as the Los Angeles Department of Water and Power (LADWP). Formerly, consumers obtained their electricity from the utility, which held the exclusive franchise to serve their geographical area. The utilities offered one basic electricity product which included electric energy, transmission and distribution, billing and customer services. All rates, costs and practices were regulated by the California Public Utilities Commission (CPUC).

Under California's 1996 electric market restructuring law, AB1890, consumers, starting in early 1998, theoretically could choose among a number of retail electric energy providers such as Green Mountain Energy or Enron. The utilities sold many of their power plants to merchant energy providers such as Dynegy, Mirant, Duke and AES, but continued to provide electricity distribution and customer services. Customers who made no choice simply remained with the local distribution utility, the "default provider" or "provider of last resort," which purchased their electric energy for them. The new competitive retailers marketed their products directly to consumers and provided them with information. Consumers were left to make, or not make, their own choices.

Less than one percent of residential customers chose alternative providers, mainly green energy providers, during 1998 and 1999. But when wholesale energy prices increased and then skyrocketed during the fall and winter of 2000-2001, most competitive retailers withdrew and

returned their customers to the local default provider utilities. As part of the trade-off for consumers paying off the utilities' uneconomic, stranded costs under AB1890, the utilities agreed to a rate freeze that lasts until March 2002 or when the utilities' stranded costs are paid off. During 1998 and 1999, the utilities did well with this bargain--because energy costs were well below the frozen rates. The utilities forwarded billions of dollars to their parent holding companies during this period. The rate freeze bargain turned around on the utilities as energy costs increased during 2000, ending when the utilities became insolvent in January 2001 and were unable to purchase electricity on the wholesale market. The Legislature then authorized the California Department of Water and Power (DWR) to purchase electricity for utility customers. At present, the utilities act as billing agents for DWR.

In addition to high prices, reliability of the electric energy supply was also compromised. During the summer, autumn and winter of 2000 there were blackouts, mainly in the PG&E area. The causes were complicated, but planned and unplanned outages of aged power plants were major factors.

THE CURRENT SITUATION

California did not experience rolling blackouts in the summer of 2001 due to decreased demand and the development of new electricity supplies. The electricity for the utilities' customers currently comes from the utilities' retained power plants such as PG&E's Diablo Canyon Nuclear Power Plant, from utility contracts with power producers called Qualifying Facilities (QFs) which are plants using co-generation and renewable resources, and from DWR. DWR must purchase the "net short," the amount the utilities need after using their own plants and QFs.

In early 2001, the CPUC approved rate increase surcharges averaging 39 percent, 4 cents per kilowatt hour, above the "frozen rates," to cover the increased costs of DWR-purchased power. The CPUC imposed a 9 percent surcharge in January and 30 percent in March. Pursuant to legislation, residential customers using less then 130 percent of their baseline allowance saw no rate increase, while customers using more saw average rate increases of 47-55 percent. Thus, about half of all residential customers have not experienced any rate increases.

In September 2001, the CPUC suspended customer choice, called "direct access," pursuant to legislation passed in early 2001. The CPUC did this in order to "lock in" customers to the utilities in order to pay for these State DWR costs and to prevent them from escaping to other electricity providers. DWR has entered into long-term contracts for power at prices that are now two or three times the market price. DWR's credit is backed by the State of California Treasury, so DWR must recover all its power purchasing costs from utility ratepayers. It has already purchased but not recovered about $10 billion in power paid from the State Treasury and a short-term loan. Future DWR contract costs are estimated at about $43 billion over the next ten years.

UPCOMING DECISIONS

California's residential utility customers are locked in to these increased rates because the costs of the utility-owned generation, the QF contracts, and the DWR contracts are set for the next five to ten years. There is an overhang of past debts of the insolvent utilities that also must be confronted before the utilities can be creditworthy again. Thus, there will be no escaping much of these high costs.

But, in 2002 the federal and state regulators will face a number of issues. California should have a well reasoned policy goal for how small electricity customers should be treated in the future to help guide these decisions. The current high costs and market dysfunctions should pass eventually. We should learn from the past debacle as we build a sensible structure for the future.

The CPUC will be considering whether to lift its suspension of direct access. But if it does permit a full range of choices again, which we would not recommend, it is essential that some form of "exit fee" or "wires charge" be implemented to ensure all customers continue to pay their share of the excess DWR costs. Determining the ground rules for restarting any large-scale direct access program would be difficult. The CPUC, and perhaps the Legislature, would also need to decide how to allocate the utility generation, QF contracts, and DWR contract costs to the different classes of utility customers.

DWR's authority to purchase energy for the insolvent utilities expires at the end of 2002. The CPUC has commenced a utility procurement proceeding to develop the groundrules for the utilities once they again purchase the "net short" for their customers. But the utilities will need to be creditworthy to do so, and it is not clear when that may happen. PG&E is in federal bankruptcy court, while SCE, under a lawsuit settlement with the CPUC, and SDG&E may be able to recommence energy procurement sometime in 2003. The CPUC will need to determine for whom the utilities will procure energy. This will be different if customers are still captive utility customers, as opposed to having "direct access" choice again.

The Federal Energy Regulatory Commission's important order that stabilized the energy market through price caps and a requirement for merchant generators to offer energy and not withhold it, expires on September 30, 2002. And the State will be trying to issue bonds to pay back the Treasury and the loan. To sell the bonds, the State Treasurer will need CPUC-guaranteed ratepayer funds to pay interest and principal in the future. There will be many decisions that need to be made in 2002. We should reflect on the lessons from the recent experience in California and other states to determine what these decisions should be and what path is best in the long run for small electricity consumers.

LESSONS FROM RECENT EXPERIENCES

A. In California, we learned what should not be surprising: **consumers hate large and rapid increases in electricity prices**. The SDG&E rate freeze ended in 2000 and then spot market prices skyrocketed. Consumers saw rates go up 100 percent or more. Consumers and small businesses howled. Household financial planning and budgets were upset, with special hardships to low-income consumers. The Legislature rapidly refroze the rates while SDG&E borrowed to cover the undercollections.

   An American Gas Association survey (*American Gas*, August-September 2001, www.aga.org) showed that consumers are willing to trade some higher cost for price stability and reliability. Most residential consumers do not want direct and immediate exposure to price fluctuations in the spot markets. So, we recommend a standard offer for small consumers with reasonably stable rates.

B. It is not a surprise that consumers small and large also **hate blackouts**. They want reliable electric service. Blackouts, as a last resort, ration electric energy supplies when they are inadequate to serve an area. When blackouts result from peak period supply shortages, they

usually last a few hours. They can be costly and disruptive to customers, especially small businesses. Worse, the way they are planned in California is unfair due to the nature of the distribution system. About half of the residential customers are exempt from rolling blackouts because they are located on an electric circuit which includes an essential service such as a hospital. To promote reliability for small consumers, we endorse the California Independent System Operator staff's proposal to require all load serving entities such as the utilities to obtain and provide 15 percent reserves above expected monthly peak demand.

C. Some California consumers do want a **choice of "Extra Green"** and renewable sources of energy and are willing to pay more for them. About 60,000 customers switched to power from Green Mountain Energy Company. But, during the energy crisis Green Mountain returned all but 8,000 to the utilities. The number of customers served by Green Mountain will further decrease as current customers leave but potential new ones do not have direct access. In the new structure, we propose a limited set of consumer choices such as extra "green," but not full direct retail competition.

D. Small consumers have a **difficult time understanding** their best choice among competitors as the products are complicated and benefits uncertain. It was easy to stay with the utility. Despite a CPUC-authorized expense of $80 million to advertise the advent of consumer choice, few consumers switched. In California, the competitors could not offer much of a discount because they were required to collect payments from consumers for utilities' stranded costs. New companies had a difficult time offering benefits to consumers to leave utility service under these conditions.

Information from competitive retailers can be highly misleading. A PG&E notice last year told small users that "Customers who use natural gas may purchase their gas from a supplier other than us." During the last winter, NewPower Natural Gas sent residential gas users a mailing offering a locked-in rate of $0.80 per therm for two years plus a $2.99 monthly customer charge. The mailer pointed out that PG&E's gas supply portion of its bills was $1.40 per therm at the time in January 2001. This offer could look attractive to customers, given the high gas costs of winter 2000-2001. But as a consumer advisory by The Utility Reform Network (TURN) explained, gas prices have come down and are expected to be about one-half the fixed NewPower price. December 2001 costs are only $0.41, about half the offered, fixed price. Also, nowhere did the NewPower mailing state the company is a joint venture of Enron, AOL Time Warner, and IBM.

Clear and credible energy price information is hard to come by for normal residential gas customers who do not know what a therm is (100,000 British Thermal Units of energy). Few know how to find current forecasts of gas or electricity prices. Making a choice requires not only forecasts, but also knowledge about the risks and uncertainties associated with such forecasts and one's personal value of hedging risks through different purchasing approaches.

Most consumers **need credible and trustworthy information** to make sensible choices. The information needs to include risks and probabilities. Some consumers want to invest the time and energy to make such choices. But many small consumers exposed directly to competitive marketers find they are subject to confusion and manipulation. Rather than try to make sense of it all, many small consumers **stay with the "devil they know," their current utility provider.** More than ten years after long distance telephone service was restructured, about half of AT&T's 60 million long distance customers pay the highest prices although they could pay less

with AT&T calling plans or with other lower-priced providers (*LA Times,* Phones: Wave of Price Hikes, Dec. 27, 2001, p.C11). Therefore, we recommend limited choices and accurate information about them, filtered through CPUC and utility consumer protections

E. **Providers to the residential market are few and unstable.** Fourteen states have restructured their electricity markets and allowed consumer choice among competitive providers. Small consumers were promised they would see savings from restructuring, but savings have been small or short-lived. In the small user market, where marketing is costly and individual usage small, there has not been a race to compete. Only in part of Pennsylvania did some 30% of the customers of Allegheny Power chose alternatives. In other areas and other states the percentage is generally less than 5 percent. The Cleveland area of Ohio is an exception, where small consumers successfully have been aggregated by new, legislatively-authorized municipal co-ops. Competitors to the utilities can only make inroads in the small user market where utility rates are high.

When energy costs increased or the competitive providers faced lack of profit, the alternative providers went out of business or just returned customers, including their commercial and industrial customers, to the utility default provider. Enron had been the most aggressive of competitive marketers, but also showed little long-term interest in the small user market and pulled out of California's retail market. Our proposed structure, therefore, focuses on keeping small users with full utility service.

F. **Designing the default provider is difficult.** If residential customers choose a competitive provider and then move, or are cancelled, or the retailer goes out of business, all restructured states have provided for a "Provider of Last Resort" or "default provider" that automatically picks them up so there is no loss of essential service. In most states, as in California, the default provider has been the distribution utility. Some states opened this default provider role up to bidding and competition.

Default provider rates are generally determined by or approved by regulators. In most cases, the default provider rate is low and stable. The experience has been that market-based prices are often higher than default prices which are based on cost of service, and competitors cannot offer better deals. In most states, at the start of competition the legislature has provided reduced and frozen rates for small users for a few years. In California, AB1890 provided that the 10 percent reduction be financed by bonds, so ratepayers will soon see increased rates to pay for those bonds, on top of the record high rates.

If the default provider has low costs and rates compared to the unregulated market, then people will just stay with it. If its rates are higher than competitors' prices, people may be motivated to choose alternatives if they have timely information and the potential benefits of switching are clear. But, default rates should not be set artificially high just to motivate switching. In addition, competitive providers will not want poor credit risk customers, so the default provider can become the high-cost last resort with a customer base of mostly poor people and people with bad credit. Keeping small users with utility service and limited choices avoids these problems and removes the need to design default provider service and rates.

G. **Real time pricing and time-of-use rates raise tricky social issues.** Economists promote real time pricing so consumers see the current real cost of electricity and can change use accordingly. A real time pricing meter can charge consumers rates that change as the current hourly cost of electricity changes. Time-of-use meters charge consumers different rates for longer periods of the day, such as peak-demand summer afternoons. Thus, a customer with a time-of-use rate sees that summer afternoon rates are high, and defers washing clothes to the evening, when rates are lower. Consumers may cycle or turn down their air conditioners. In this way, electric system costs are reduced, energy is saved, and the customer who can switch times of using appliances saves money.

But these time pricing models benefit families who are not home during the day, and increase prices for families, including the elderly and disabled, at home during peak cost times. The social issue is whether we are all in this together, with averaged rates, like first class postage stamps, or whether economic efficiency should be served regardless of the fairness impacts. One lesson so far is that if only some customers are on time pricing, they will "skim the cream." That is, those not home anyway will subscribe and get lower rates, but they will not make any change in use and, thus, no energy is saved. The meters cost a couple of hundred dollars, so it costs yet more money to put all residential users on such meters and rates. Therefore, we recommend excluding time pricing from the small list of customer choices.

H. **Energy service providers need stability** in their customer base if they are to make long-term financial commitments in the form of power plants or contracts for power. If customers can leave and join at will, it is difficult for a provider to plan a resource portfolio that involves long-term commitments. The tendency is to rely on the spot and short-term markets to avoid the risk of costly oversupply. Demand level certainty for suppliers can be provided by creating geographical franchises, by maintaining the customer base through prohibition of direct access, and by creating entrance and exit fees for those customer classes that are permitted direct access.

I. **Large users cannot be allowed to game the system, switching when it is to their benefit, but returning to the default provider when the market no longer works for them.** During the run-up in electricity prices in California in the winter of 2000-2001, customers who were on direct access switched back to the utilities with their frozen rates when those prices were lower, or when their providers cancelled them, which happened frequently with large non-residential customers. Then, in the summer of 2001 when competitors' prices were lower than the utilities, which had a 40% rate increase, customers were allowed to switch back to direct access providers until the CPUC halted that practice effective September 20, 2001. Therefore, there should be limits and charges on any large customer switching to join the small consumers' service.

J. Where there is retail competition, residential customers **continue to need a default provider** who must accept each customer. Given the lack of stability of competitive retail marketers and the difficulties in obtaining information, small users need a safe haven.

MARKET STRUCTURE OPTIONS

There are more lessons to be learned as more states experience electricity market restructuring. The options for the structure of the electricity market for small users range from the traditional public utility approach, with one public utility providing all electricity service in an exclusive geographical franchise, to "pure competition" with multiple competitive energy service providers competing for individual direct access customers.

Another option involves geographic aggregation of customers in Retail Marketing Areas (RMAs). This option introduces competition to the retail distribution market, but only in selection of the RMA providers. The selection of the RMA provider can be for only one time, or the RMA franchises can be opened periodically for renewal and competition. When customers are aggregated geographically, there should not be a need for a default provider. The provider has guaranteed stability of demand and is responsible for reliable service. All consumer information and any choices are provided by the utility or RMA provider.

Other entities can aggregate residential customers. Municipal electric distribution utilities or agencies can provide service to their jurisdictions. In Ohio, about 15 percent of residential customers have been aggregated into 158 new community buying groups, mainly in the Cleveland area where the utility's prices have been high. Auto Clubs, Costco and farmer co-ops may also aggregate customers.

When such aggregators supply retail electric service, a default provider is needed in case they fail. In designing small user markets where there are alternative providers, a major decision is whether customers must "opt in" and can "opt out." The California AB1890 approach required customers to choose to leave utility service and opt in to a new provider. Then, the customers could also opt out of the chosen provider at will, sometimes paying a cancellation charge if required by the competitive provider.

In pure competition, individual customers must choose a competitive provider and there is no default provider. All must choose, that is, must opt in to a provider. Competitive retailers provide consumers with marketing information and design their own products. The products can involve the full range of options for pricing, cancellation charges, and other features. Because electricity is such an essential service, it is our position that the Legislature or regulators must establish a safety net in the form of a default provider to keep the lights on in the event competitive companies exit the market. In addition, an unregulated company has no obligation to serve. It is expected they will, over time, "dump" undesirable customers on the default provider. The default provider's costs will go up due to the nature of its load, and it can become a ghetto of the disadvantaged. This is exactly the situation set up by the PUC in Texas in designing the "provider of last resort."

WHAT IS BEST FOR RESIDENTIAL CONSUMERS?

Time-of-Use Rates. A fundamental decision facing regulators is whether residential consumers continue with averaged rates for all, or if they will be required to obtain new meters and pay time-of-use or real time hourly rates. Proponents say that time-of-use rates will achieve reductions in use when demand and power generating costs are high, and all customers need to be on time-sensitive rates. This may reduce overall system costs for all consumers, but those households and businesses with unavoidable electricity needs on hot summer afternoons will pay more or risk their health and safety, not to mention deny themselves comfort, in order to pay less. Consumers Union

prefers averaged rates because costs are more predictable for households and the rates do not discriminate against the elderly, the homebound, and families with children.

Given the residential consumer market experience in California and other states with restructured electricity markets, the following **limited and very different product options** should be considered.

A. **Stable Rates.** Small consumers mostly want stable prices they regard as fair and reasonable. Consumers especially abhor price spikes and are willing to forego some opportunity for lower long-run average prices to avoid nasty surprises. Political leaders also seem to prefer stable prices, because angry consumers call on them for help when prices increase dramatically, as occurred in San Diego in 2000.

   The distribution utility should be required, under CPUC regulation, to construct a balanced and hedged portfolio of energy sources involving contracts of different durations, with other hedging instruments to assure stable prices. This portfolio would be the standard default choice for small customers, in some states called the "standard cost of service rate." The utility provides this offer on the traditional regulated utility approach, at its cost of service, not charging current market prices. This portfolio can include the utility-owned power generation, at its cost of service. For stability, the portfolio should include mostly long-term contracts, but with some amount of short-term supplies for diversity. We believe that utility managers, under CPUC groundrules, should provide small consumers with the risk hedging approaches that assure stable rates. Individual consumers should not be confronted with that problem.

   But the Legislature, CPUC, and utilities should not construct too many complex choices for small customers. While Consumers Union believes consumer choice is important, with this commodity only one standard portfolio should be offered, with no hedging variations. There is no reasonable way most small consumers can obtain the most current information and forecasts to confidently make such choices. However, if the political and social decision is that diverse choice for consumers is an important value, then the greatest care must be taken in constructing choices with different levels of risk while ensuring that consumers are provided adequate information.

B. **Market-Based Spot Prices.** Some consumers may want to gamble they will receive lower prices, on average, if they choose a portfolio that includes short-term market prices from the wholesale Western States electricity market. Such a portfolio could include a major proportion of energy bought in the one-hour, the day ahead, the three-month, and the six-month markets. Prices would be more volatile than with the standard offer. Consumers Union does not support offering such a risky and confusing choice to small users at this time.

C. **"Extra Green" and Renewable.** Many consumers are willing to pay higher prices for energy with a higher percentage of environmentally clean and/or renewable technologies, such as wind power and geothermal power. In Oregon, the PUC has approved such a choice and also a Habitat Restoration Supply Service under which a consumer chooses not only more renewable power, but also contributes to wildlife habitat restoration.

   In California, Consumers Union, with other groups, supports a renewable resource portfolio standard, which the Legislature should adopt, to require all electric energy providers to increase the percentage of power from renewable resources. This can provide price stability, protect the environment, and promote the economic development of renewable energy

industries. This Extra Green consumer choice would involve a portfolio with a higher percentage of renewable resources than the standard requirement.

D. **Energy Conservation.** Some consumers want an energy service provider to supply not only energy, but also information and programs on the demand side. Fully integrated portfolio managers can supply cost-effective conservation equipment and services to customers as well as conditions that require demand reductions at high-cost peak demand hours. An example would be a provider who sells cycling air conditioners to customers and provides a lower rate to customers who permit the provider to initiate the cycling, through a communication link, when needed during times of peak demand and high costs.

   The utilities should continue to offer such demand side management programs to all small users under CPUC regulation. The California Energy Commission, using grant funds, the California Power Authority, using its low-cost loan funds, and the Independent System Operator, using demand side bidding and load management programs funded by rates, should also continue and integrate these programs. This rate option would link small customers with a one-stop-shopping provider who would assess the customers' potential for energy and cost savings and package all the programs into one comprehensive service.

Consumer Information. Sensible consumer choice depends on readily available, clear, and trustworthy information about sellers and their products. In a competitive market, sellers portray their products as the best and employ incomplete information and misleading statements. Crucial factors may be downplayed or omitted in marketing materials. In restructured markets, selecting an electric energy provider is an infrequent decision which consumers face at the outset of competition or when they move or are cancelled. While a kilowatt hour of electricity is the same from all sellers, consumers need information about reliability and financial backing and prospects for reasonable prices. Such information can be complicated and difficult to obtain. Texas has required all providers to give consumers a standardized "electricity facts label" intended to allow consumers to compare key prices, terms and conditions, as well as information on air emissions from generation sources.

CONCLUSIONS AND RECOMMENDATIONS FOR CALIFORNIA

California's residential electricity consumers have restructuring- and information-fatigue. They need simplicity and consumer protections. The Governor and Department of Water Resources have locked us in to high-cost energy contracts for a decade. They need to renegotiate them. Nearly all our demand will be served for five to ten years from utility generation, QF contracts, and DWR contracts. There will not be much new power for either the utility or alternative service providers to purchase for us for at least five years. Our cost for electric energy, on average, will be 5-8 cents/kilowatt hour, while the spot market in the Western States and the consumers in the rest of the country see costs of 3-5 cents/kilowatt hour. This is a dismal prospect.

California should move toward a market structure for small users that provides limited and clear consumer choices, consumer protections, reliability, trustworthy information, and reasonable rates. Competition among power generators and brokers at the wholesale level can continue.

The distribution utilities have been the providers during restructuring for most small customers, and now they are again the exclusive providers. If utility managers, and their holding company superiors, are committed to the role of standard offer energy providers for small customers, they

should continue that role, under cost-based rates. This provides stable geographic aggregation and eliminates any need to construct a troublesome default provider. But if the holding companies that contain the utilities are not committed to effective and responsive regulated service to small utility customers, then the Legislature and the CPUC should define Retail Marketing Areas and open up retail electricity service to competitive providers.

Over time, the utility should offer the choices wanted by major groups of consumers. The utility should offer an Extra Green choice and a Conservation Choice, but CPUC regulation should open those choices up to competitive wholesale providers through a bidding process. The utility, under a CPUC-approved process, would shop among possible service providers instead of leaving that role up to individual consumers. In Oregon, Pacific Power and Portland General Electric used a bidding process approved by the PUC to select Green Mountain Energy to provide three options to consumers. These are a 100 percent renewable resources option, a habitat restoration option, and a Clean Wind option. The PUC approves how these choices are constructed. Consumers receive information only about this limited number of clear choices.

With respect to reliability and avoiding blackouts, the California restructuring legislation, incredibly, overlooked making any entity responsible for providing generation and demand side management reserves. Reserves help make sure there is adequate capacity to meet demand and to make up for power plant outages, transmission line failures, and other problems in meeting peak demands. The California Independent System Operator staff is proposing that all load serving entities, such as the distribution utilities, be responsible for obtaining the 15 percent reserves to meet peak monthly demand. This is badly needed. Both the ISO Board and the Federal Energy Regulatory Commission will need to approve the proposal.

The 14 states that have restructured have not produced a clearly effective model market structure for small electricity consumers. More mistakes are being made. The lessons learned so far indicate that pure retail competition for small customers can expose them to price volatility, boom and bust cycles, and confusing and misleading information. Vigorous, stable, and well-financed competition for the small customers is lacking. Few companies want in. We should keep it simple in California and let others make mistakes for awhile.

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